

African Development Bank Group

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MALAWI

Thirty years of Fruitful Cooperation



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Malawi

Message from the AfDB President

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Donald Kaberuka

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By resolutions adopted on 27 September 1999 and 13 November 2002, respectively, the Boards of Directors of the Bank and Fund decided to establish a network of field offices in Regional Member Countries (RMCs) to improve dialogue with client countries, raise the Bank's profile, strengthen portfolio management and improve donor coordination. The Boards approved a Decentralization Strategy in June 2004 that envisaged the opening of up to 25 field offices by the end of 2006. As at end of 2007, 22 field offices had been opened and were operational. The Malawi Country Office was opened in November 2006 and became full operational in June 2007.

As is the case with the other Bank Country Offices, the Malawi Country Office represents the face of the Bank in the country and plays an important role in dialogue with the government, donor partners and all other stakeholders to ensure Bank activities are based on evidence and best practices and are aligned to govern-

ment priorities. Central to the Bank's interventions in RMCs will be selectivity with complementarity with a focus on infrastructure, regional integration, building capable states and support to the private sector. Soft infrastructure such as helping with policy reforms, creating incentives for private/public partnerships, determining continental priorities, building capacity for regional economic institutions, and coordinating multi-donor activities are the other areas which will get attention of the African Development Bank.

The Bank has been supporting the development effort in Malawi since 1969. Since then commitments worth UA 537.7 million (US \$ 838.8M million), net of cancellations, have been made to finance 73 development projects, 11 studies and 2 lines of credit. As of December 2007, the Bank's active commitment amounted to UA 130 million (US \$ 203 million). In the coming three years, the Bank will continue to support Malawi to develop and improve its infrastructure (roads, water and sanitation); increase productivity and diversification of the agricultural sector; strengthen human skills and institutional capacity through improved education and health services; improve the country's connectivity to regional and global markets, and the development of the private sector in particular Small and Medium Enterprises. The Bank will also continue to support the government's reform programme and the implementation of the Malawi Growth and Development Strategy.

Donald Kaberuka
AfDB President

Introduction to the **AfDB** **Group**

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The African Development Bank (AfDB) was established in 1964 as a regional multilateral development finance institution to mobilize resources towards the economic and social progress of its Regional Member Countries (RMCs). It is headquartered in Abidjan, Côte d'Ivoire, but is currently operating from its Temporary Relocation Agency (TRA) in Tunis, Tunisia, to where it moved in 2003 following political unrest in Côte d'Ivoire. The African Development Bank Group comprises three entities: the African Development Fund established in 1972, the Nigeria Trust Fund established in 1976 and the AfDB as the flagship. The three constitute the African Development Bank Group.

The Bank Group's shareholders are the 53 African countries and the 24 non-regional member countries (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, Switzerland the United Kingdom, Argentina, Brazil, Canada, United States of America, Kuwait, Saudi Arabia, China, India, South Korea and Japan). By the end of 2006, the African Development Fund had a subscribed capital of US\$ 33 billion. The African Development Fund had subscriptions totaling US\$ 23 billion while the Nigeria Trust Fund had, in December 2004, a net value of assets of US\$ 540 million. The AfDB's primary objective is to assist African countries – individually and collectively – in their efforts to achieve economic development and social progress.

The institution's main challenge is to reduce poverty on the continent. Combating poverty is at the heart of the continent's efforts to attain sustainable economic growth. The Bank therefore seeks to stimulate and mobilize internal and external resources to promote investments as well as provide RMCs with technical and practical assistance.

In partnership with various international and development organizations, including the United Nations, the World Bank, and the International Monetary Fund, the AfDB has, since 2000, undertaken to support RMCs in their efforts to attain the Millennium Development Goals (MDGs).

The admission of non-regional members in 1982 gave the AfDB additional means that enabled it to contribute to the economic and social development of its RMCs through low-interest loans. With a larger membership, the institution was endowed with greater expertise, the credibility of its partners and access to capital markets in its non-regional member countries. It also enjoys triple A ratings from all the main international rating agencies.

However, the AfDB Group maintains an African character derived from its geography and ownership structure. It exclusively covers Africa. It is also headquartered in Africa, and its President is always African.

Malawi

Message from the **Malawian Finance Minister**

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Hon. Goodall Gondwe

The African Development Bank and the Government of Malawi have worked together since 1969 in promoting growth, eliminating poverty, reducing inequity, and improving opportunities for the people of Malawi. Addressing these issues and facilitating economic transformation, however, is not at all easy. It calls for broadening the decision-making process to involve all key stakeholders. It also requires a departure from the traditional combination of adjustment operations and discrete investment programs to a comprehensive reform program financed through the budget and program-based approaches.

Government appreciates the contribution of the Bank towards Malawi's development efforts. There is still room for improvement, however, particularly on procurement and disbursement issues, to better facilitate project implementation.

The Government of Malawi also appreciates the increased ADF allocation from UA 49 million under ADF X to UA 117 million under ADF XI to fund development priorities in Malawi, including water and sanitation, support to local economic development, trunk road rehabilitation, agricultural development and general budget support in support of the MGDS.

The priorities have been agreed between Malawi and the Bank under the Country Strategy Paper Mid-Term Review, which calls for an increased focus on results and accountability to our citizens. Personally, I am very excited to be working together with the Bank and it is my belief, as well as that of the Bank, that Malawi will meet its poverty eradication goals.

Malawi will continue to work closely with the African Development Bank to address these challenges, and is proud to be associated with the significant progress already made.

Malawi

AfDB-Malawi Cooperation

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Bank support to Malawi began in 1969 and by the end of 2007, 86 operations had been financed. Currently, commitments amount to UA 130.2 million (212.7 million USD) in 12 on-going projects. These projects aim at contributing to increased productivity in the agricultural sector, improving incomes of rural smallholder farmers, providing potable water and improved sanitation to rural communities, supporting human and institutional capacity building, as well as contributing to the diversification of the country's economy and its export base. Projects supported by the Bank have been in the agricultural, health, educational, transport, as well as water and sanitation sectors. Significant achievements have been recorded in the area of agricultural productivity where yields of maize have increased from 1 to 3 tons per hectare while yields of sugar cane have increased from 80 to 140 tons per hectare among smallholder farmers. Household incomes have trebled among smallholder maize and sugar cane farmers in the project areas. The provision of irri-

gation infrastructure and use of fertilizer have been the main drivers of the gains in productivity and increases in household incomes.

While the overall performance of the Bank's portfolio in Malawi remains satisfactory, the portfolio is facing a number of challenges, including the weak capacities of Project Implementation Units, weak Monitoring and Evaluation systems as well as slow project implementation rates due to disbursement and procurement delays. A number of actions, by both the Bank and the Government of Malawi, are being taken to address these challenges.

In the coming years, the Bank will continue to work with the Government of Malawi, donors and other stakeholders to scale-up interventions based on evidence and best practices; improve quality-at-entry and during implementation; promote co-financing with other development partners and focus on aid effectiveness and results.

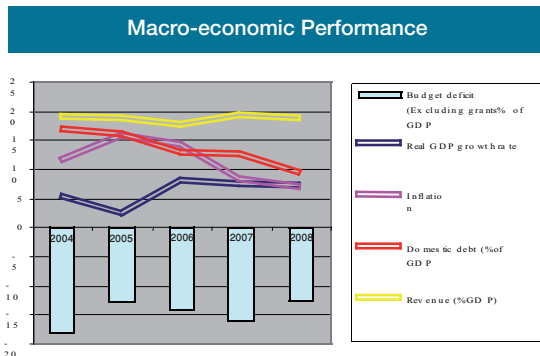
¹ 1 UA = 1.64 US\$ in April 2008.

Malawi

The Malawi Economy at a Glance

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Malawi has seen steady macroeconomic growth in the past few years, with real GDP growth averaging above 7.0 percent since 2006.



Annual inflation has been on the decline, reaching an all time low in recent years of 7.1 percent for the month of September, 2007. The fall in the Bank rate from 25 percent in 2006 to 15.0 percent in 2007 has helped facilitate a reduction in commercial banks' lending rates from 22.5 percent to 19.6 percent in 2007.

The reduction in the Liquidity Reserve Ratio (LRR) from 27.5 percent to 20 percent in the first quarter of 2007 helped untie additional commercial bank resources.

These developments have fuelled an expansion of credit to the private sector which increased by 22 percent in 2007.

Government has sustained prudent fiscal management leading to reduction in the fiscal deficit from 6.6 percent in 2004 to 2.8 percent in 2007.

The domestic debt stock has been on the decline reaching 12.5 percent of GDP in 2007. This has reduced interest payments as a pro-

portion of government expenditure from 27.4 percent in 2003/04 to 13 percent in 2006/07. Revenue collection performance as a proportion of GDP has increased from 18.5 percent in 2005 to 19.1 percent in 2007. Grants as a proportion of GDP have increased from 8.8 percent in 2003/04 to 13.2 percent in 2007/08.

Malawi's external debt sustainability has been greatly enhanced following debt relief through the Highly Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI). The attainment of the HIPC Completion Point in 2006 resulted in Malawi's foreign debt stock being reduced from over US\$2 billion to less than US\$600 million.

Government's adoption of a more flexible exchange rate in the first quarter of 2006 has helped eliminate private external payment arrears and enhanced external competitiveness. However, in spite of the kwacha's stability over the past two years the foreign reserve situation remains fragile. At 1.6 months of import cover in 2007, it remained well below the Sub-Saharan average of 6.8 months.

Mid-term prospects are positive, strengthened by possible economic expansion beyond agriculture. Uranium mining, scheduled to start in 2008, at its peak is expected to contribute 10% to GDP. IMF projections show that the growth rate will be maintained for 2008 and 2009. The rising food and oil prices are expected to push up inflation although projections show that it may still be contained at around 7-8 percent.

The challenge is to cement macroeconomic growth and sustain the momentum for poverty reduction.

Message from the **Director** operation southern **Africa**

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Director Frank Black

The Bank has been supporting the development effort in Malawi since 1969. Since then, commitments worth UA 595.5 million (US \$ 893.2. million), net of cancellations amounting to UA 62.0 million (US \$ 93 million), have been made to finance 92 lending and non-

lending operations. As of December 2007, the Bank's active commitment amounted to UA 130 million (US \$ 203 million). Over the next three years, the Bank will continue to support Malawi to develop and improve its infrastructural (roads, water and sanitation); increase productivity and diversification of the agriculture sector; strengthen human and institutional capacity through improved education and health services; improve the country's connectivity to regional and global markets and the development of the private sector, in particular, Small and Medium Enterprises. The Bank will also continue to support the government's reform programme and the implementation of the Malawi Growth and Development Strategy. An allocation of UA 117.61 million (just under US \$ 200 million) has been allocated to Malawi to support these planned programmes during the period 2008 – 2010.

The Bank's Country Strategy in Malawi

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The 2005-09 Results-Based Country Strategy Paper (RBCSP) for Malawi was approved by the Board of Directors on 24 November 2005. The RBCSP is anchored on the country's second-generation Medium Term Poverty Reduction Strategy, the Malawi Growth and Development Strategy (MGDS).

The RBCSP was designed to respond to Malawi's key development challenges of widespread poverty, food insecurity, unemployment, limited export growth, and a capacity and skills gap. It seeks to assist Government and the private sector in addressing these development challenges by focusing on two mutually reinforcing strategic pillars: (i) Expanding rural infrastructure and (ii) Developing human capital and institutional capacity

The Bank conducted the Mid-Term Review of Malawi's RBCSP in February 2008. The MTR Results showed that the Bank's interventions have contributed positively to the RBCSP with positive progress observed in over 70 percent of the outcome indicators. The review recommended that the two pillars remain the same for the remaining period, with a deepened focus on transport, irrigation and water infrastructure, tertiary education and budget support to enhance the Bank's response to government's priorities.

The Review further called for enhanced focus on private sector development to respond to government's desire to cement macroeconomic stability and sustain economic growth and poverty reduction.

| RBCSP Pillars and MGDS Alignment | | |
|---|--|---|
| Pillar | Areas of intervention within Pillars | MGDS Alignment |
| Expanding Rural Infrastructure | 1. Irrigation infrastructure | Thematic Area: Infrastructure development Priority Focus Area: Irrigation and Water Development |
| | 2. Water and sanitation infrastructure | Thematic Area: Infrastructure Development Priority Focus Area: Irrigation and Water Development |
| | 3. Transport infrastructure | Thematic Area: Infrastructure Development Priority Focus Area: Transport Infrastructure Development |
| Building Human Capital and Institutional Capacity | 1. Tertiary education | Thematic Area : Social Development Sub Theme: Education |
| | 2. Health | Thematic Area : Social Development Sub Theme: Health |
| | 3. Governance | Thematic Area : Good governance Sub Theme: Macro-economic growth, anti-corruption, strong justice system and rule of law |
| | 4. Private sector development | Thematic Area: Sustainable Economic Growth Sub Theme: Creating enabling environment for private sector development |

Malawi

The Role and Function of the Malawi Country Office

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The institutional reforms which started in 2005 have led to heightened emphasis on country focus, delivery of results and development to regional member countries and the need for development effectiveness of Bank operations. This has created a need for the Bank to get closer to its clients and for it to liaise more with its development partners at the country level. As part of efforts to improve the implementation of its programmes and increase its outreach, the Bank has, since 2002, opened 22 regional and country offices, including the Malawi Country Office (MWFO).

The MWFO has four main roles and functions. The principal functions performed by MWFO comprise portfolio management and project administration, including project implementation monitoring, follow-up on disbursement

and loan repayment arrears, and assistance to the Government of Malawi and executing agencies regarding preparation of procurement documents, quarterly progress reports, annual audit reports and project completion reports. The MWFO assists in deepening the participatory approach in the preparation of country strategy papers, project design and making contacts with relevant stakeholders in Malawi and coordinating operations by the Bank and the Fund with the activities of other donor agencies, representing the Bank and Fund in resource mobilization and aid co-ordination meetings, as well as taking responsibility for country dialogue activities.

MWFO staff participate in project identification, preparation and appraisal missions and, in some cases, lead these missions. Staff also, from time to time, join multi-donor missions as well as missions dealing with analytical work such as Economic and Sector Work (ESW).

Resident Representative's Message

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Simona KUFKWANDI

Bank support to Malawi began in 1969 and by the end of 2007, 86 operations had been financed. Currently, commitments amount to UA 130.2 million in 12 on-going projects. These projects aim at contributing to increased productivity in the agricultural sector, improving incomes of rural smallholder farmers, providing potable water and improved sanitation to rural communities, supporting human and institutional capacity building, and contributing to the diversification of the country's economy and its export base. Projects supported by the Bank have been in agriculture, health and education, transport, water and sanitation. Notable achievements have been recorded in the area of agricultural pro-

ductivity where yields of maize have increased from 1 to 3 tons per hectare while yields of sugarcane have increased from 80 to 140 tonnes per hectare among smallholder farmers. Household incomes have trebled among smallholder maize and sugarcane farmers in the project areas. The provision of irrigation infrastructure and use of fertilizer have been the main drivers of the gains in productivity and increases in household incomes.

While the overall performance of the Bank's portfolio in Malawi remains satisfactory, the portfolio is facing a number of challenges, including weak capacity of Project Implementation Units, weak Monitoring and Evaluation systems and slow project implementation rates due to disbursement and procurement delays. A number of actions are being taken to address these challenges by both the Bank and the Government of Malawi.

In the coming years, the Bank will continue working with the Government of Malawi, donor partners and other stakeholders to scale-up interventions based on evidence and best practices; improve quality-at-entry and during implementation; promote co-financing with other development, and focus on aid effectiveness and results.



Drying Macadamia Nuts in Kalira in Kasungu
Agricultural Development Division – Macadamia Smallholder Production

The Bank's Portfolio in Malawi

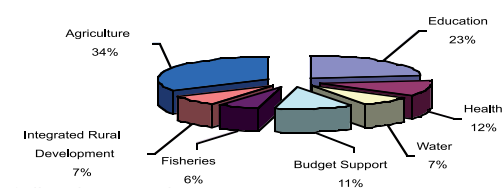
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Selected Projects

The AfDB supports the government through various lending instruments, such as project support and programmatic approaches, targeting the rural poor. Support to the agricultural sector continues to be an important cornerstone in the Bank's support for the attainment of the MGDS.

In FY 2007/08 the African Development Bank supported the MGDS by funding Government of Malawi projects and programs in the accompanying table. More detailed information on some selected projects can be found in the

Figure: Portfolio Sectoral Distribution, by Commitments



following section.

| Table: Portfolio Commitments | | |
|--------------------------------|---|-------------------------|
| MGDS Pillar | Project | ADB Commitment in UA m. |
| Economic Management and Growth | Horticulture & Food Crop Development | 7.5 |
| | Smallholder Irrigation Project | 5.0 |
| | Macademia Smallholder Development | 6.9 |
| | Smallholder Outgrowers Sugarcane | 8.9 |
| | Smallholder Crop Production & Marketing | 15.0 |
| | Lake Malawi Artisanal Fisheries | 7.8 |
| | Skills Development & Income Generation | 9.6 |
| Social Development | Secondary Education Phase IV | 15.0 |
| | Secondary Education Phase V | 15.0 |
| | Health Sector Program SWAp | 15.0 |
| Infrastructure | Integrated Rural Water Supply & San. | 9.6 |
| Governance | General Budget Support | 14.9 |

Table: Results from Selected Projects

| Project | Results |
|--|---|
| Smallholder Irrigation Project | <ul style="list-style-type: none"> • The yield of maize has increased from 1 ton/Ha to 3 tons/Ha; • Productivity with irrigation increased from 1.6 tons/Ha to 3.5 tons/Ha; • 1,862 Ha mostly maize under irrigation. Construction of irrigation systems now covers 830 hectares of land; • The project has contributed to a nation-wide increase of food secure households from 67% (2004) to 97% (2007); an increase of the smallholder GDP growth rate from -1.5% (2004) to 14% (2007) and; an increase of small holder maize output from 1.3 million tons (2004) to 3.4 million tons (2007). |
| Skills Development & Income Generation | <ul style="list-style-type: none"> • 36,000 people made literate and 25% of these have joined business groups; • 8,000 trained in production skills and 10,000 in business management; • MK 150 million has been generated through the project community savings capital building program. |
| Smallholder Outgrowers Sugarcane | <ul style="list-style-type: none"> • The average income for farmers has increased from USD 262 per Ha to USD 865 per Ha; • The yields of farmers in the scheme have risen from 80 tons per hectare before the launch of the project in 2002 to 140 tons per hectare; • 525 Ha. Sugarcane under irrigation; • 12 centre pivots for irrigation have been installed; • 41.6 km access roads constructed. |
| Secondary Education Phase IV and V | <ul style="list-style-type: none"> • Percentage of students passing the MCSE has increased from 5% (2002) to 16% (2006) in the schools; • MSCE completion by girls increased from 1% (2002) to 15% (2006); • 20 schools with 80 class rooms constructed and furnished (Phase IV), and 50 additional schools are planned (Phase IV and V); • Science equipment and chemicals provided for 2,000 students, equipment and chemicals for an additional 10,000 student planned (Phase IV and V); • Textbooks for core subjects provided to 35 schools (30 additional schools to be supplied under Phase V); • More than 1,000 science teachers and 300 head teachers trained; • 20 laboratories and 20 libraries built; • The projects have contributed to a nation-wide increase in the quality of education in the Community Day Secondary Schools (CDSS) as reflected by a reduction in the ratio of CDSS pupils to qualified teacher from 159 in 2004 to 93. |
| Integrated Rural Water Supply & Sanitation | <ul style="list-style-type: none"> • 40 % and 57% of the population in Mzimba and Ntchisi respectively have been provided with water by the project; • More than a quarter of a million people in the two districts now have access to improved water supplies; • The project has contributed to a nation-wide increase of access to water from 66% (2004) to 71% (2007); • Built 1,389 new water points and constructed 22 sanitation facilities; |



Bakery Business run by women in Salima District – Skills Development and Income Generation Project

Briefs on selected projects can be found on the following pages

5.1 Integrated Rural Water

Supply and Sanitation

Total ADF commitment:
UA 9.6 million (approximately USD 15 million)

Implementing Ministry:
Ministry of Irrigation and Water Development

Effectiveness date:
October 2002

Completion date:
June 2008

Objectives:

- To assist in providing safe and reliable water supply and sanitation facilities in the Ntchisi and Mzimba areas and to carry out hygiene and environmental sanitation campaign and a water quality-monitoring program.

Description:

- Infrastructure development which mostly encompasses construction of boreholes, hand dug wells, springs, buildings and VIP latrines at schools and health centers;
- Social and environmental support which is accomplished through community mobiliza-

tion, capacity building and health, hygiene and sanitation awareness activities.

5.2 Smallholder Outgrower'

Sugar cane Production Project

Total ADF commitment:
UA 8.9 million (approximately USD 14 million)

Implementing Ministry:
Ministry of Agriculture

Effectiveness date:
November 2000

Completion date:
December 2008

Objectives:

- To alleviate poverty of smallholder sugarcane out-grower farmers (including women) around Dwangwa by increasing their incomes and improving household food security

Description:

- Provision of inputs and irrigation infrastructure, including rehabilitation of roads and provision of training for farmers;
- Provision of seeds and fertilizers to enable farmers to cultivate the fringes of the irrigated project sites with rice, maize, soyabean and cassava.



Crop of maize grown using simple water management techniques like treadle pumps, residual moisture and stream diversion. Land was prepared in August 2007 and by October 2007 the crop was starting to mature, mponela, Dowa under Kasungu ADD

5.3 Smallholder Irrigation

Project

Total ADF commitment:
UA 5.0 million (approximately USD 9 million)

Implementing Ministry:
Ministry of Agriculture

Effectiveness date:
November 1999

Completion date:
June 2009

Objectives:

- To improve the well-being of 7,500 smallholder farmers in the Blantyre and Shire Valley Agricultural Development Divisions through poverty alleviation and to promote broad-based and accelerated agricultural development through irrigation.

Description:

- Construction of small scale irrigation schemes;
- Capacity building in irrigation technologies for the Departments of Irrigation at the University of Malawi and the Natural Resources College. Construction of a hydraulic laboratory at the University of Malawi;
- Provision of seeds and fertilizers to enable farmers to cultivate the fringes of the irrigated

project sites with rice, maize, soybean and cassava.

5.4 Skills & Income

Generation Project

Total ADF commitment:
UA 9.6 million (approximately USD 15 million)

Implementing Ministry:
Ministry of Gender, Youth and Community Services

Effectiveness date:
December 2002

Completion date:
December 2008

Objectives:

- To improve the capacity of the poor to actively participate in broad-based sustainable economic activities in Malawi.

Description:

- The project provides skills development addressing functional literacy, business management training and production skills training;
- Improved access to micro-finance;
- Capacity building of government institutions addressing skills development.



Centre Pivot Irrigation System. Sugarcane yield has improved from 80 tonnes/ha to 130 tonnes/ha. Smallholder Outgrower Sugarcane Production Project – Dwangwa, Nkhotakota District

5.5 Support to Secondary

Education, Phase IV and V

Completion date

Phase IV: UA 15.0 million
(approximately USD 24 million)

Phase V: UA 15.0 million
(approximately USD 24 million)

Implementing Ministry:
Ministry of Education

Effectiveness date
Phase IV: November 2002
Phase V: July 2006

Completion date
Phase IV: June 2009
Phase V: December 2012

Objectives:

- To improve quality and equity of secondary education, especially at the Malawi Community Day Secondary Schools.

Description:

- Infrastructure development, including classrooms, laboratories and other school facilities;
- Provision of educational materials for core subjects, including maths and science;
- Building of teacher capacity through teacher education development;
- Building capacity and formulating policy development for secondary education.

Malawi

Conclusion and Way Forward

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The commitment to reform by the Government of Malawi has translated into sustained macro-economic progress and favourable donor support over the past three years. The Bank will continue to support the country within the MGDS framework and the Results Based Country Strategy Paper. While Portfolio performance has been rated as satisfactory, more needs to be done to strengthen the capacity of Project Implementation Units,

improve quality-at-entry and during implementation, enhance monitoring and evaluation systems, delivery and managing for results. In the coming years, the Bank will work with the Government of Malawi and other donors to scale-up the size and impact of operations, based on selectivity and complementarity, and leveraging of its resources with those of other donors while providing leadership in a few selected areas in which the Bank has developed a comparative advantage.

Office in Malawi

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“ The Bank has been supporting development efforts in Malawi since 1969. Since then commitments worth UA 595.5 million (US \$ 893.2. million), net of cancellations amounting to UA 62.0 million (US \$ 93 million), have been made to finance 92 lending and non-lending operations. As of December 2007, the Bank's active commitment amounted to UA 130 million (US \$ 203 million). Over the next three years, the Bank will continue to support Malawi's development efforts and help improve its infrastructure (roads, water and sanitation); increase productivity and diversification of the

agricultural sector; strengthen human skills and institutional capacity through improved education and health services; improve the country's connectivity to regional and global markets and the development of the private sector in particular small and medium enterprises. The Bank will also continue to support the government's reform programme and the implementation of the Malawi Growth and Development Strategy. An allocation of UA 117 million (US \$ 177 million) has been allocated to Malawi to support these planned programmes for the period 2008 – 2010.”

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